

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

May 6, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Mountjoy & Bressler, LLP, Certified Public Accountants, presents the Rockcastle County Sheriff's Settlement - 2004 Taxes as of May 6, 2005.

We engaged Mountjoy & Bressler, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Mountjoy & Bressler, LLP evaluated the Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

May 6, 2005

Mountjoy & Bressler, LLP has completed the audit of the Sheriff's Settlement - 2004 Taxes for Rockcastle County Sheriff as of May 6, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,360,498 for the districts for 2004 taxes, retaining commissions of \$97,545 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,258,214 to the districts for 2004 Taxes. Taxes of \$3,256 are due to the districts from the Sheriff and refunds of \$68 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	10

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2004 Taxes as of May 6, 2005. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid as of May 6, 2005, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
September 21, 2005

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

May 6, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 208,532	\$ 274,234	\$ 1,145,497	\$ 374,215
Tangible Personal Property	15,305	18,757	78,949	85,080
Intangible Personal Property				18,566
Fire Protection	1,684			
Increases Through Exonerations	405	502	2,111	315
Franchise Corporation	35,676	43,891	185,095	
Additional Billings	167	215	900	494
Unmined Coal - 2004 Taxes	17	22	93	30
Limestone, Sand, and Mineral Reserves	93	122	511	167
Penalties	2,458	3,215	13,431	4,466
Adjusted to Sheriff's Receipt	<u>2</u>	<u>28</u>	<u>7</u>	<u>7</u>
Gross Chargeable to Sheriff	<u>\$ 264,339</u>	<u>\$ 340,986</u>	<u>\$ 1,426,594</u>	<u>\$ 483,340</u>
<u>Credits</u>				
Exonerations	\$ 2,810	\$ 3,691	\$ 15,420	\$ 5,066
Discounts	2,753	3,570	14,922	6,182
Delinquents:				
Real Estate	9,673	12,642	52,805	17,250
Tangible Personal Property	627	769	3,236	2,168
Intangible Personal Property				1,177
Total Credits	<u>\$ 15,863</u>	<u>\$ 20,672</u>	<u>\$ 86,383</u>	<u>\$ 31,843</u>
Taxes Collected	\$ 248,476	\$ 320,314	\$ 1,340,211	\$ 451,497
Less: Commissions *	<u>10,848</u>	<u>13,613</u>	<u>53,608</u>	<u>19,476</u>
Taxes Due	\$ 237,628	\$ 306,701	\$ 1,286,603	\$ 432,021
Taxes Paid	237,417	303,295	1,285,770	431,732
Refunds (Current and Prior Year)	<u>164</u>	<u>214</u>	<u>900</u>	<u>273</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 47</u>	<u>\$ 3,192</u>	<u>\$ (67)</u>	<u>\$ 16</u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
May 6, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,010,287
4% on	\$	1,340,211

** Special Taxing Districts:

Library District	\$	7
Health District		8
Extension District		3,178
Soil Conservation District		<u>(1)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u>3,192</u>
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ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

May 6, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 6, 2005 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
MAY 6, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 2005 through May 6, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 24, 2005 through June 30, 2005.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$590 as interest income on 2004 taxes. As of September 21, 2005, the Sheriff owes \$322 in interest to the school district and \$268 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$19,463 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 21, 2005, the Sheriff owes \$1,482 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Rockcastle County Sheriff collected \$1,360 of advertising costs and \$2,745 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of May 6, 2005

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and the receipts ledger. Any differences should be reconciled. This review should be documented by the Sheriff initialing and dating these documents.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers to ensure accuracy. Any differences should be reconciled. This review should be documented by the Sheriff initialing and dating these documents.
- The Sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be reconciled. This review should be documented by the Sheriff initialing and dating these documents.

Sheriff's Response:

None.

PRIOR YEAR:

The County Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

This item has been corrected.

The Sheriff's Office Lacks Adequate Segregation Of Duties

This finding has not been corrected and is repeated for the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2004 Taxes as of May 6, 2005, and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement -2004 Taxes as of May 6, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
September 21, 2005

